



**Director of
Central
Intelligence**

~~**Top Secret**~~

OCPAS/CIC

CI# 285

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National Intelligence Daily

*Thursday
6 October 1983*

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CPAS NID 83-235JX

6 October 1983

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PHILIPPINES: New Austerity Measures

The austerity measures announced yesterday by Central Bank officials will be politically damaging to President Marcos, but they may avert a more serious government liquidity crisis in the months ahead.

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Manila is devaluing the peso by 21 percent, the largest depreciation since 1970. The government also will impose new restrictions on foreign exchange and will tighten domestic credit.

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These actions follow several weeks of intense negotiations between the government and the IMF on financial performance criteria that would be required for new balance-of-payments credits. The Fund suspended disbursements from the existing \$375 million standby loan in June, when it determined that Manila was not observing restrictions on creating domestic credit.

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Comment: The Central Bank had devalued the peso by 7 percent in June. Since then, however, it has been forced to draw down foreign exchange reserves by \$170 million and sell gold reserves of \$150 million to support the exchange rate. The new devaluation will ease pressure on the Bank's reserves and might avert a liquidity crisis that would be almost inevitable without a change in economic policy.

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The devaluation at minimum will lead to a resumption of disbursements from the existing IMF standby credit. It may also pave the way for a new loan for 1984, rumored to be about \$400 million, although the Fund may choose instead to establish a single 15-month program. This would improve the Central Bank's prospects for securing new commercial loans early next year.

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The new austerity measures, however, will give the opposition another issue to exploit. The devaluation will greatly increase domestic prices of imported oil and raw materials and add to the peso cost of servicing foreign loans obtained by the private sector. Organized labor almost certainly will cite the devaluation and its inflationary consequences as justification for immediate wage increases.

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NICARAGUA: Military Activity

The Sandinistas have been hurt by recent insurgent successes, but the guerrillas also have suffered some setbacks. [redacted]

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A government spokesman says Eden Pastora's insurgents attacked Puerto Isabel on Monday, destroying two fuel storage tanks.

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Comment: The attack on Puerto Isabel may have destroyed a large amount of fuel needed for local transportation. Although fuel is available from storage facilities elsewhere on the coast, the loss would strain already limited supplies. [redacted]

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The use of aerial resupply for the insurgents in central Nicaragua evidently has helped them overcome some of the logistic difficulties they encountered earlier this year. [redacted]

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POLAND: Reaction to Walesa's Award

The awarding of the Nobel Peace Prize to Lech Walesa will give a psychological boost to the regime's critics, but it is unlikely to lead to a widespread resumption of opposition activity. [REDACTED]

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The US Embassy reports that thus far reaction has been light in Warsaw and Krakow. The authorities have not yet commented officially, although one bureaucrat said the prize had been "devalued." Walesa has already indicated he may not go to Oslo because he fears he might not be allowed to return to Poland. [REDACTED]

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Comment: The authorities probably will reassert that they are no more willing now than earlier to deal with Walesa. At the same time, they may temporarily tone down personal attacks on him. They will calculate that public exultation will die down quickly, as it did after the Pope's visit in June. [REDACTED]

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The award almost certainly will reinforce Walesa's popularity with workers. In addition, some intellectuals who had increasingly discounted Walesa may now focus on him as a spokesman for criticism of the regime. For years to come, most Poles will point to the prize as proof of the need for political reform. [REDACTED]

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ARGENTINA: Air Force Opposes Debt Rescheduling

Pressure from hardline nationalists and from organized labor is jeopardizing debt refinancing programs and has heightened military unrest. [redacted]

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The US Embassy reports that nationalist Air Force officers are behind a federal judge's ruling that has blocked the rescheduling of the public-sector debt—the prerequisite for disbursement of a \$1.5 billion loan. The judge also briefly placed the president of the Central Bank under arrest for following the longstanding practice of assigning jurisdiction over US bank loans to US courts. The Air Force has threatened to leave the junta over this alleged violation of national sovereignty. [redacted]

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Unrest in the other services has intensified as a result of the injunction and tensions created by the successful general strike on Tuesday. [redacted]

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Comment: Little official support exists outside the Air Force for terminating the debt negotiations, and the government has a strong legal basis for appealing the judge's ruling. If the process is prolonged, however, it could turn the case into a rallying point for nationalists who question the legitimacy of the entire \$40 billion foreign debt. International lenders thus far have tolerated the legal delays, but failure to meet a loan payment due on 17 October could weaken banker confidence. [redacted]

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Meanwhile, military unrest probably will increase, along with economic uncertainty and labor strife. A two-day general strike may take place next week. [redacted]

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The military services are deeply divided internally and are unlikely to achieve the unity necessary to halt the election at this late date. If the Air Force quits the junta, however, it could provoke a government crisis. [redacted]

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INTERNATIONAL: IAEA To Address Membership Issues

The meeting of the IAEA Board of Governors today and tomorrow and the annual General Conference next week will encounter problems as a result of Iraq's attempts to oust Israel, but China's entry into the organization is not likely to be controversial.

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The Iraqis have concealed their intentions, hoping to surprise Israel's supporters.

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China's membership is widely expected to receive unanimous approval, but some problems associated with Beijing's entry remain unresolved. IAEA officials believe it will be difficult to negotiate an agreement to give China a permanent seat on the Board of Governors.

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Japan, the USSR, and some other members are concerned that China will not require IAEA safeguards for its future exports. China and the US, however, have made some progress toward reaching an understanding that would permit continuation of IAEA safeguards over Taiwan's nuclear program.

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Comment: Iraq may offer a resolution either to expel Israel or, as is more likely, to reject Tel Aviv's credentials to the General Conference. Western nations have organized enough votes to block the required two-thirds majority to expel Israel. A credentials challenge would require only a simple majority—a goal that is within reach.

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Meanwhile, India and black African states are likely to limit their attack on South Africa. Expulsion would make it more difficult for the IAEA to maintain safeguards on Pretoria's nuclear power reactors.

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VIETNAM-KAMPUCHEA: Vietnamese Settlers Increasing

Prince Sihanouk's claim that there are 600,000 Vietnamese settlers in Kampuchea appears overstated, but there is evidence to suggest that the number is increasing. [redacted]

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At a speech to the UN on Monday, Sihanouk stated that the resettlement in Kampuchea had resulted in extensive exploitation of land and other resources and would further Vietnam's colonization of the country. [redacted]

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[redacted] During Sihanouk's rule in the 1950s and 1960s, there were approximately 500,000 Vietnamese in Kampuchea. [redacted]

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[redacted] the new settlers include those who returned after fleeing the anti-Vietnamese massacres of the 1970s, as well as southern Vietnamese fleeing military service and restrictive economic policies. In addition, diplomatic reporting indicates that Vietnamese farmers have been moving in greater numbers into the border provinces and into areas around Lake Tonle Sap. [redacted]

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Comment: The absence of reporting on the establishment of "New Economic Zone"-type settlements or on mobilization of Vietnamese cadre suggests that Hanoi is not directing the increase in the number of settlers. Vietnamese authorities do not try to prevent emigration, however, and the settlers are administered by Vietnamese rather than Kampuchean officials. [redacted]

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The increasing proportion of Vietnamese farmers among the settlers will heighten competition for highly productive riceland. This could provoke violent reactions by Kampuchean farmers. [redacted]

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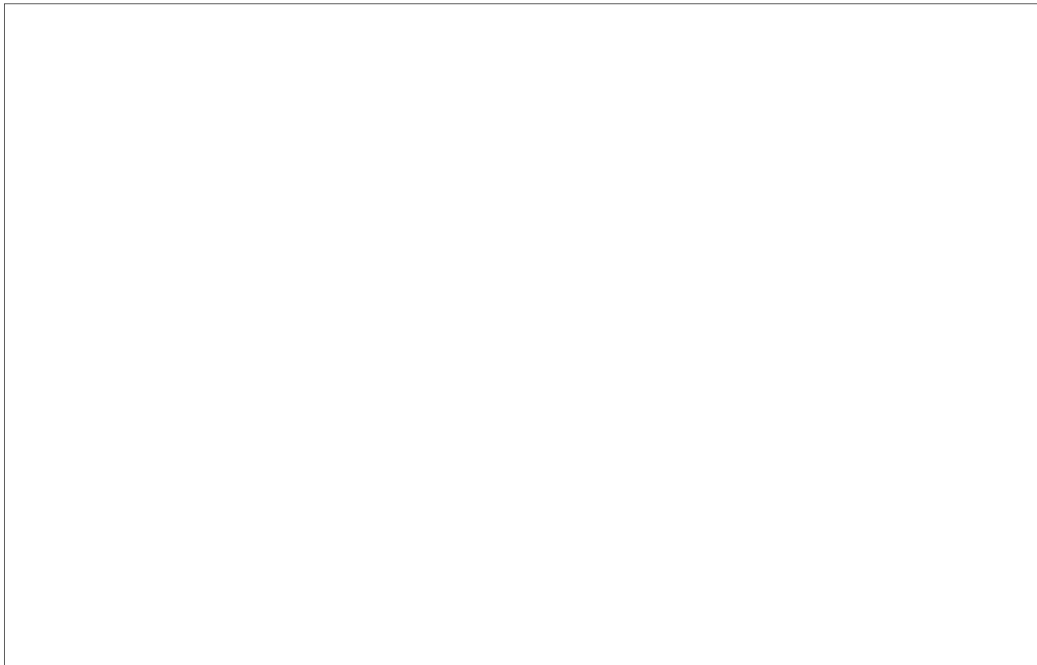
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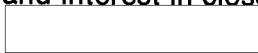
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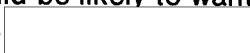


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FRANCE-IRAN: Naval Contingency Planning

The US defense attache in Paris reports that Iran's threats to close the Persian Gulf have prompted the French Navy to consider plans to send a squadron of minesweepers to the area. French officials have said the ships would be dispatched if intelligence indicated that the Iranians were preparing to mine the Strait of Hormuz. They would take approximately two weeks to reach the Persian Gulf. French military sources previously have indicated concern about the Iranian threats and interest in close cooperation with the US on possible reactions. 

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Comment: Paris would be likely to dispatch a force similar to the five minesweepers and support ships it maintained in the area from October 1980 to the fall of 1982. French forces in the Indian Ocean are at a normal peacetime level—five frigates and a number of support units. The Navy probably could not send substantial forces to the Indian Ocean now, partly because of its commitments to support French forces in Lebanon. If Iran were to try to close the Persian Gulf, Paris would be likely to want the US to take the lead in any military response. 

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NICARAGUA-UN: Managua's Diplomatic Tactics

Nicaragua probably will use discussions of Central American problems by the UN General Assembly to gain international support for its contention that it is the victim of aggression. Managua has argued that discussion of the issue will strengthen the Contadora peace talks. Nevertheless, the other Central American states and two Contadora countries—Venezuela and Colombia—have opposed a UN debate on the grounds that it would have a negative effect on regional talks. Cuba and Nicaragua also have urged the nonaligned states at the UN to adopt a communique promoting negotiations in El Salvador and criticizing US policies on Central America.

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Comment: Nicaragua's willingness to oppose the Contadora countries by insisting on a debate indicates the importance it places on strengthening the UN's jurisdiction over Central American issues. It may push for a General Assembly resolution endorsing the Contadora talks similar to the one approved by the Security Council in May. The Sandinistas are opposing discussion of Central America in the OAS and want to keep the UN alternative open if the Contadora talks should fail.

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USSR: Party Plenum Scheduled

Two middle-level Soviet officials on separate occasions last week told US diplomats in Moscow that the next Central Committee plenum will be held in November. One of the officials said further economic initiatives are to be announced, including increased funding for investment in technically advanced equipment and facilities. The other said General Secretary Andropov may make personnel changes in economic policy positions. In addition, a Soviet economist says a special plenum may be held this month—in response to tension over INF deployments—to discuss the question of achieving Soviet and East European self-sufficiency in modernizing industry with advanced computers and robots. []

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Comment: Only one more plenum is likely to be held this year. One was held in June, and more than two in one year is rare. Andropov could use a plenum on economic issues to take political advantage of the USSR's improved economic performance this year and perhaps to make some personnel changes. The rumor of a special plenum on technological self-sufficiency may have been floated to raise concern in Western Europe that INF deployments would reduce East-West trade opportunities. []

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CANADA-USSR: Trudeau's Remarks on Airliner Shootdown

Twice this week Prime Minister Trudeau described the shootdown of the South Korean airliner as a "tragic accident" probably caused by a "reckless" Soviet pilot and his "misguided" commander. He added that Canada considered its 60-day ban on Aeroflot flights to be an appropriate response and urged all nations to halt their anti-Soviet rhetoric. Trudeau asserted that the Soviets are unlikely to make disarmament concessions if the West continues to treat them as "murderers." []

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Comment: Trudeau's statements reflect his concern that the airliner incident could disrupt the Geneva negotiations. Since May, he has repeated his support for NATO's dual-track policy, approved the testing of US cruise missiles in Canada, and welcomed US arms control initiatives. Although Ottawa will continue to support the US and NATO on East-West strategic issues, Trudeau also will continue to criticize publicly what he describes as "the two superpowers shouting stupid things at each other." []

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EL SALVADOR: Labor Support for Agrarian Reform

The US Embassy reports that 15,000 to 20,000 peasants and workers turned out last week for a demonstration in the capital in support of agrarian reform and worker benefits. The demonstration was sponsored by the Popular Democratic Union—a centrist labor umbrella organization—and supported by the Christian Democratic Party. Ultrarightist leader Roberto D'Aubuisson later declared publicly that the leader of the peasants' association affiliated with the Popular Democratic Union had leftist ties and implied that the Christian Democrats knew this. The Embassy notes that, in the past, four labor leaders were killed following public attacks by D'Aubuisson. [REDACTED]

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Comment: Moderate labor unions are making impressive efforts to use their political influence to ensure that the Constituent Assembly will include liberal agrarian reform articles in the new constitution. The current draft articles are restrictive, and the ultrarightist parties are opposed to their modification. As debate on the issue approaches, extremist attacks on labor leaders probably will increase. [REDACTED]

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CUBA: Crackdown on Dissent

The Communist Party newspaper has reported that General Escalona, who had been a vice minister of the armed forces, has been named Minister of Justice. His predecessor committed suicide in June, after a police investigation of corruption in the Ministry. In the late 1950s Escalona was a member of President Castro's guerrilla forces. [REDACTED]

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Comment: The appointment of a senior military officer personally loyal to the President and his brother to head the judiciary system underscores the government's intention to crack down hard on corruption and growing dissent. Opposition to the regime is usually expressed in isolated acts of sabotage, painting of antigovernment slogans, and petty crimes. [REDACTED] responsibility for trying sabotage cases had been turned over to military tribunals, and several of those convicted have been executed. In addition, Escalona may carry out a reorganization of the Ministry and purge civilian lawyers and judges, several of whom were arrested earlier this year for "violating the laws of the Constitution." [REDACTED]

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WEST GERMANY: Free Democratic Support for INF

The Free Democrats almost certainly will support INF deployment at coming party congresses and in the security debate next month in the Bundestag. [REDACTED]

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[REDACTED] Many left-leaning Free Democrats opposed to deployments left the party after the formation of Chancellor Kohl's coalition last year. Only a handful of Free Democratic deputies might oppose the government's resolution reaffirming West Germany's adherence to NATO's dual-track decision. The Free Democrats' stipulation that the negotiations continue probably would not apply if the Soviets appeared to be responsible for a breakdown in the talks. [REDACTED]

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SOMALIA: Tribal Fighting

[REDACTED] clashes between rival clans have increased during the past several weeks, and President Siad is worried that tribal violence may spread to Mogadishu. Although Siad is using the military to try to restore order, tribal leaders charge that some soldiers from his tribe are making the situation worse by supporting their fellow clansmen in the fighting. Security officials have arrested several elders from both the feuding tribes in an attempt to bring the situation under control, but they admit that they cannot prevent more clashes. [REDACTED]

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Comment: Siad probably hopes the arrests will counter charges that he is backing his own clansmen. Over the longer term, Siad's continuing tribal favoritism, repressive tactics, and failure to make political concessions to clans opposing him will further weaken support for his regime. Intertribal mistrust, however, keeps his political and military opposition fragmented. Ethiopian-backed dissident groups are likely to exploit the current wave of violence by increasing their recruitment of disgruntled tribesmen. [REDACTED]

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Iraq: Economic Indicators

	Foreign Exchange Assets ^{a b}	Imports ^a	Oil Exports ^c	Oil Revenues ^a
1975	3	6.1	2,158	8.5
1976	5	5.8	2,292	9.7
1977	8	6.2	2,360	11.0
1978	10	7.4	2,356	10.9
1979	19	11.9	3,259	22.2
1980	31	12.8	2,314	25.2
1981	21	20.1	796	10.8
1982	8	19.4	740	9.5 ^d
1983	3-4 ^d	15 ^d	690 ^d	6.7 ^d
1984		12 ^d	700-900 ^d	7-9 ^d

^a \$1 billion.^b End of year.^c 1,000 barrels per day.^d Estimated.

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Special Analysis

IRAQ: Economic Pressures Intensify

Iraq's economic situation is steadily deteriorating because of the war. Its two oil export terminals in the Persian Gulf were put out of commission by the Iranians early in the war, and Damascus refuses to allow oil deliveries through the Iraq-Syria pipeline. Oil revenues are now less than one-third of prewar levels, forcing Baghdad to deplete its foreign exchange reserves and slash imports. If the Iraqis cannot find a way to ease their financial plight, they are likely to attack oil targets in Iran in the hope of forcing Tehran to the negotiating table. The French delivery of five Super Etendard aircraft would greatly improve the regime's ability to strike Iranian oil shipping and facilities. Baghdad probably hopes its public threats of such attacks will prompt more aid from the Persian Gulf states or bring action by the superpowers to arbitrate for peace.

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This year Iraq's oil income will total about \$7 billion. In 1980 Baghdad earned more than \$25 billion from oil exports. Iraq's only current outlet for oil exports is the pipeline through Turkey, which handles 700,000 barrels per day.

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Reduced Spending

Iraq's imports in 1983 probably will decline by nearly 25 percent from the level of \$19 billion in 1982. Much of the drop is coming at the expense of Japan, West Germany, and France. As a result of oil barter deals and delayed payment arrangements, Iraq will be able to avoid deeper import cuts this year.

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Imports from the USSR probably will approach the level of \$1.4 billion in 1982. An oil barter deal apparently solved the problem of arranging payment for Soviet military deliveries. The USSR is Iraq's most important arms supplier.

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The Iraqi private sector and the Iraqi consumer are bearing the brunt of import reductions. Baghdad has shelved its development program and halted most projects not related to the war or to the petroleum sector. Consumer goods, including fresh produce, are increasingly scarce.

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Shortages have heightened inflation and promoted black-market activity. Stricter controls on foreign exchange are contributing to a flight of foreign workers. This has compounded Iraq's chronic shortage of manpower, which was already made more acute by the war.

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Financing the Deficit

Iraq will stay solvent this year because of financial help from the Arab states of the Persian Gulf and the deferred payments allowed by its trading partners. Aid from the Arab states probably will approximate the \$5.5 billion they provided last year. [REDACTED]

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Saudi Arabia and Kuwait—because of their own financial difficulties resulting from the weak world oil market—will provide most of the aid in the form of oil sales on Iraq's behalf. Much of this oil is being used in Iraq's oil barter deals. [REDACTED]

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Iraq's payments are running as much as six months late, and Baghdad is negotiating delayed payment arrangements with a host of foreign companies. Most of the firms will agree to the request in order to salvage what they can of their sizable financial commitments in Iraq. [REDACTED]

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Meanwhile, Iraqi drawings on foreign exchange reserves probably will be about \$4-5 billion in 1983. During the first quarter, Iraq drew down reserves by \$3 billion to a level of \$5 billion. Before the war, foreign exchange assets amounted to about \$35 billion. [REDACTED]

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Next year Baghdad faces the prospect of a current account deficit nearly as large as the projected \$14 billion gap in 1983 unless it makes more cuts in imports. Iraq's trading partners and the Arab states of the Persian Gulf probably will not provide Baghdad with enough financial support to prevent a new round of austerity measures. [REDACTED]

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